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Via Electronic Filing

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 Twelfth Street, SW
Washington, DC 20554

Re: Notice of Ex Parte Presentation: Federal-State Joint Board on Universal Service, CC Docket No. 96-45; 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, CC Docket 98-171; Telecommunications Services for Individuals with Hearing Speech Disabilities and the Americans with Disabilities Act of 1990, CC Docket No. 90-571; Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, CC Docket No. 92-237, NSD File No. L-00-72; Number Resource Optimization, CC Docket No. 99-200; and Telephone Number Portability, CC Docket No. 95-116.

Dear Ms. Salas;

Today, Colleen Boothby (Ad Hoc Telecommunications Users Committee), Joel Lubin (AT&T), Brian Moir (e-commerce Telecommunications Users Group), Mary Brown (WorldCom), and I met with Sam Feder, Legal Advisor to Commissioner Kevin Martin to describe the Coalition proposal to replace the current USF assessment mechanism with a flat-rated, per line charge. The attached document was used as a basis for discussion.

Consistent with the Commission rules, I am filing one electronic copy of this notice and request that you place it in the record of the proceedings.

Sincerely,

Patrick H. Merrick

Attachment

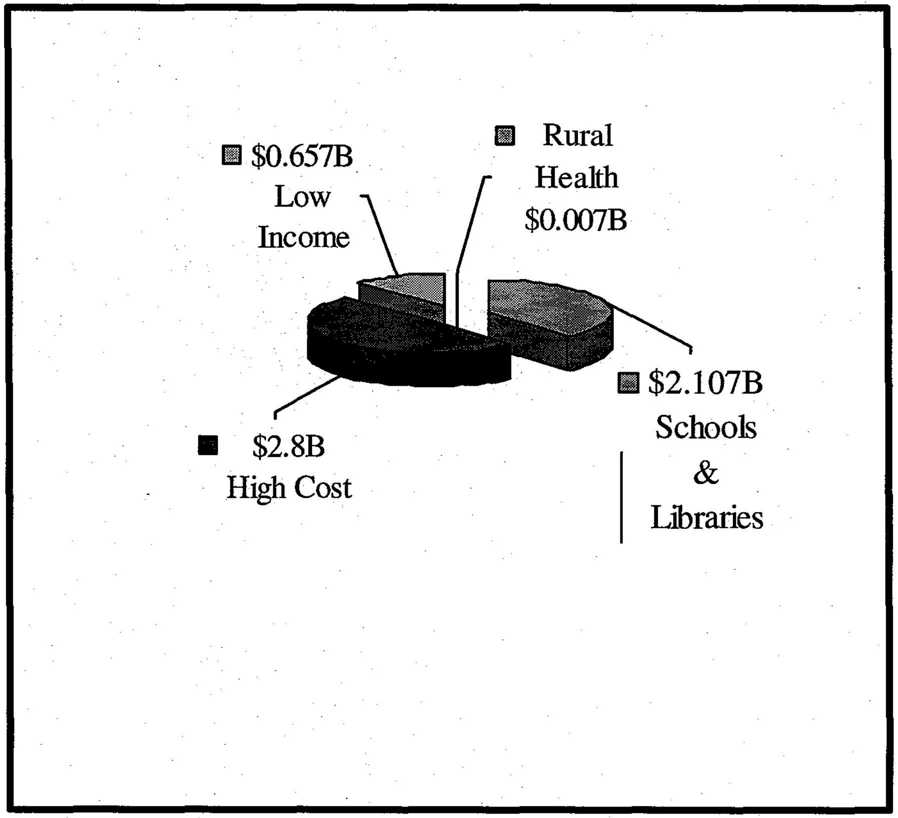
cc: Meeting Attendees

Revise the Universal Service Collection Mechanism : Make It Simple, Fair, and Cheaper for Consumers

Coalition Proposal by Ad Hoc Telecommunications Committee, AT&T, e-TUG, and WorldCom

Federal Universal Service Fund : $5.5 Billion per Year

- High cost fund keeps rural rates affordable
- Low income households receive inexpensive Lifeline service and discounts for initial connection charges
- Schools and libraries receive e-rate discounts for equipment, wiring, and Internet connectivity
- Rural health care providers receive telecom discounts for telemedicine applications



$5.5B Fund Will Continue to Grow

- Bush administration projects $7.9 billion by 2006
- "MAG" plan will increase USF between $300-$400m a year
  - Effective 7/1/02
- FCC opens proceeding on low income household participation
- FCC opens proceeding on expanding implementation of section 254 to include advanced services
- Remand of FCC's Ninth R&O creates risk of larger fund
- Fund could increase further if more customers in high cost areas acquired multiple lines

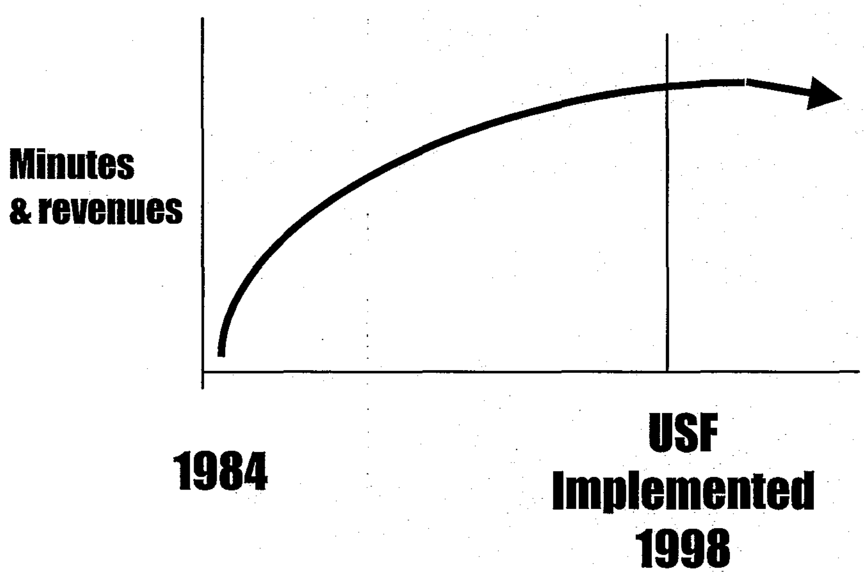
Who pays the $5.5 billion ? Customers!

76%	**16%**	**6%**	**2%**
Customers of Long Distance Carriers	**Customers of Incumbent Local Exchange Carriers**	**Customers of Wireless Carriers**	**Customers of Competitive Local Exchange Carriers**
$4.2B	**$0.9B**	**$0.3B**	**$0.1B**

How does the universal service fee appear on monthly customer bills?

- Long distance customers: a percentage charge on revenues, in 8-9.9% range
- ILEC customers: a per line charge, typically in the range of $0.35-$0.50
- Wireless customers: a per line charge, typically in the range of $0.40-$0.53

Fundamental change has occurred in the long distance market



- Long distance voice revenues and interstate switched minutes are in sustained decline
- Glut in long-haul capacity put substantial downward pressure on prices
- Wireless successfully substituting for traditional long distance service
- Instant messaging and e-mail also are substitutes
- Future: Voice on Internet

Revenue-based system has measurement problems

- Wireless carriers sell blocks of minutes, and cannot distinguish interstate from intrastate revenues
  - Use “default” allocator that understates interstate usage
- Most industry experts agree that carriers will increasingly sell certain “bundles” of interstate and intrastate services, CPE, enhanced services

Coalition Proposal

- Eliminate revenue-based assessment

- Replace with a connections and capacity assessment on the interstate telecommunications provider that "owns" the end user customer

Coalition proposal: residential

- USAC to assess carriers based on wireline and wireless interstate connections
  - $1 per connection per month
  - Lifeline assessed nothing
- Pagers assessed at $0.25 per month

Coalition proposal: business

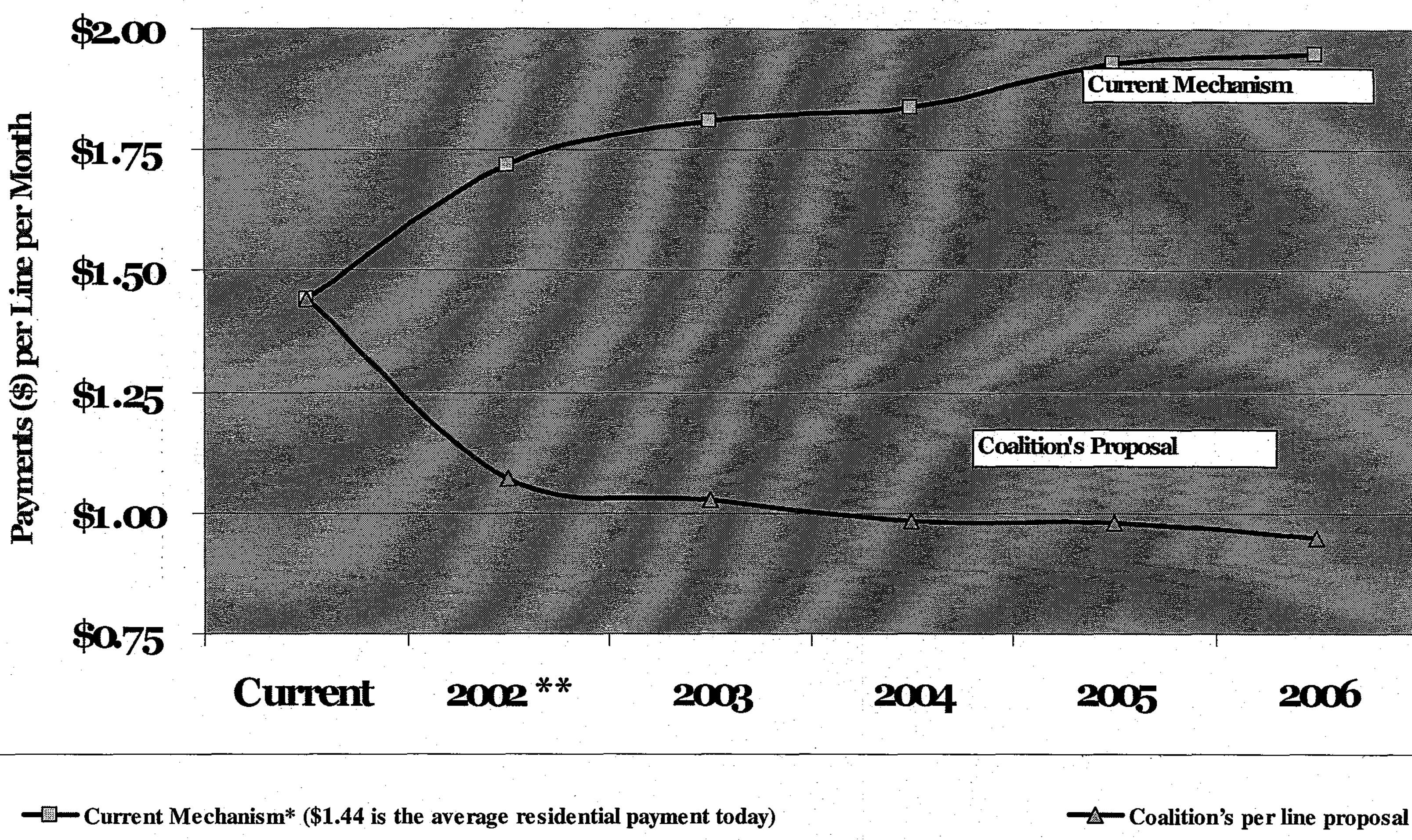
- USAC assesses on interstate network connections and capacity
  - Single-line business (wireline) at $1; wireless at $1; pagers at $0.25
  - Residual multi-line business (wireline) base charge $2.50 - $3.25:

Level	Facility Capacity	USF Contribution Rate
1	Less than 1.544 Mb/s	Base multi-line business USF charge
2	1.544 Mb/s (T-1) up to 45 Mb/s	5 X (base MLB USF charge)
3	45 Mb/s (DS-3) or greater	40 X (base MLB USF charge)

Who pays under the coalition's plan?

- Carrier who "owns" the customer for the purpose of providing the connection is assessed
  - ILECs based on loops provided to their end users (loops are legally considered interstate, as well as intrastate)
  - Competitors who provision end users from their own loop facilities, via UNE-P or unbundled loop, or using interstate special access
  - Wireless carriers based on the number of "connections" (more easily counted than interstate revenues)
  - Future increases borne by all customers

Residential USF Contribution Scenarios



* The Current Mechanism is a combination of " LEC Collection per Line" and "LD Collection Based on % of Customers Interstate and International Revenue"
** Reflects increases associated with the MAG Order (e.g. Interstate Common Line Support, SLC Increases)

Coalition Plan: Transition Year

- Immediate implementation for residential
- But plan requires billing systems development that will take 12 months
  - Option 1: USF requirement minus known per line charges, divided by number of multiline business lines (MLB as residual)
  - Option 2: First take USF requirement minus known per line charges. For residual, apply Commission prescribed surcharge factor to private line revenues, including retail end user special access. Residual of that amount recovered from MLB charges

Proposal complies with the Act

- Upon whom should the obligation to contribute to universal service fall?
  - "All interstate telecommunications providers"
- How should contribution be apportioned among interstate telecommunications providers?
  - Not prescribed by the statute; assessment must be equitable and nondiscriminatory
- No conflict with 5th Circuit decision